



North Carolina

Department of Health and Human Services

**DIVISION OF CHILD DEVELOPMENT**

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Michael F. Easley, Governor • Carmen Hooker Odom, Secretary • Peggy M. Ball, Director

**MEMORANDUM**

**TO:** Directors of County Departments of Social Services  
Directors of Other Child Care Purchasing Agencies  
Directors of State Level Contract Agencies

**FROM:** Peggy M. Ball

**DATE:** July 13, 2005

**RE:** Child Care Subsidy Funding Situation for 05-06 State Fiscal Year

As you know, the General Assembly is working on the State Budget for the current state fiscal year (SFY). Until that time, your agency should use the February budget estimate as the guide for your subsidy allocation amount for SFY 05-06; however, I am writing to make you aware of changes in the subsidy funding situation which may impact your agency and the decisions you make early in the year.

During the June meetings of the various committees of the North Carolina Association of County Directors of Social Services, Division staff reported on the current situation; however, I thought it was important to provide the information to each of you in writing. During the last quarter of SFY 04-05, child care subsidy service levels increased significantly. By the end of May, 104,500 children were receiving subsidy services as compared to around 95,000 per month earlier in the year when budget projections were being made. While there are some increased amounts of subsidy funding in both the House and Senate budgets, we are concerned because the anticipated funding is only sufficient to support serving about 95,000 children per month.

A large portion of the increased service levels has occurred in counties that traditionally underspend their subsidy allocation. Since these counties have increased their spending levels, we anticipate there will be less money to revert and reallocate for SFY 05-06. Therefore, counties that have historically relied on reallocations to maintain service levels will need to identify other sources of funding and develop an attrition plan to decrease spending. Because of the anticipated decrease in funding available to revert and reallocate, the Division will only conduct one reversion and reallocation process in SFY 05-06. Currently, the process is planned for December at which time, spending for the first five months of the year will be considered (June through October service months). The specific spending coefficients to be considered for a reversion and reallocation will be announced in future correspondence. Given the expected limited availability of funds, counties should not build anticipated reallocation funding into their attrition plans.

Due to the uncertainty of having funds to revert and reallocate, the manner in which end of year overspending is covered will also change. Agencies should not assume that funds will be available to cover overspending at the end of SFY 05-06. Spending that exceeds \$1,500 will not be covered unless the agency has received prior written approval from the Division that funds are available. In order to



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receive prior approval, a written request is needed indicating that all possible resources (county funding, TANF, Smart Start, etc.) have been explored and exhausted and why the overspending occurred. Please note that agencies whose spending exceeds their allocation amount that do not have a waiting list will not be considered for a reallocation during the reallocation process in December or at the end of the year.

We are reviewing all possible options to help address the fact that many of you may face significant reductions in your spending level this year. Some of the attrition levels that would have to occur are so severe, that it is unlikely that this could occur naturally. One option being considered is to allocate a portion of the child care subsidy funding outside the allocation formula. Currently, the House Budget contains a provision that would allow the Division to allocate up to \$22 million outside of the formula to help avoid the termination of subsidy services. This provision has been requested to give the Department flexibility in allocating funds to counties that need to make the most dramatic service level reductions. The goal is to help counties avoid the termination of subsidy services wherever possible. This provision was utilized in the SFY 4-05 and allowed many of you the opportunity to gradually reduce your spending so that families were not harmed by a sudden loss of child care. If this provision is approved again, your funding authorization will reflect the portion of your allocation that is allocated in this manner.

We recommend that your agency begin to make plans to ensure your spending remains within your allocation amount. We are requesting that you complete the attached Subsidy Business Plan as a part of your planning process. The Plan will be due to the Division within thirty days of your receipt of your official allocation for SFY 05-06; however, we encourage you to begin working on the plan now. The specific instructions related to the approval process and the submission of the Plan are included on the attached document. Please note that we are requesting that agency directors sign off on the Plan to designate approval.

The Subsidy Services Consultant assigned to your agency is available to assist your staff with the development of a spending management plan. The Consultant can provide valuable resources such as a spending tracking tool and can help evaluate your local policies to determine if there are areas where changes could be made without having a severe impact on families. For example, if your local policy currently allows for the payment of full-time child care when the parent's work or school schedule only requires part-time care, you may wish to consider revising the policy to only pay for part-time care. Please know that the Division is committed to assisting you in the provision of child care services to the eligible families in your community and will help you explore all possible options to assist you in serving families at a level within your allocation amount.

PMB/NDG

Attachment

cc: Child Care Coordinators of Local Purchasing Agencies  
Directors of Local Smart Start Partnerships  
Sue Ruth, North Carolina Partnership for Children  
Local Business Liaisons  
Carolyn Cobb, North Carolina More at Four Pre-Kindergarten Program